Washington, D.C. - Today the House passed H.R. 1427, the Federal Housing Finance Reform Act, after accepting an amendment offered by Congresswoman Melissa Bean (IL-08) that strengthens the legislation.

H.R. 1427 improves regulation of housing-related government-sponsored enterprises, **Fannie Mae** and **Freddie Mac**, companies chartered by Congress to provide a stable source of mortgage capital for low-, moderate- and middle-income homeowners. The publicly held companies use capital raised from their shareholders and in the public debt markets to buy mortgages made by lenders such as banks, savings and loans and credit unions. The GSE portfolios are key tools in assuring a secure, constant market for home loans in whatever economic cycle or interest-rate environment.

After reports of GSE accounting and operational problems surfaced in 2003, a consensus emerged that Congress should create a single, independent regulator, with broad authority to ensure safe and sound operations and enforce compliance with their charter and mission.

H.R. 1427 creates for the first time a single regulator, the Federal Housing Finance Agency, for all federal housing enterprises -- Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. The bill allows the Agency to regulate the GSEs investment portfolios and to establish capital standards for the GSEs to ensure they operate in a safe and sound manner. The bill also increases the maximum loan size that could be purchased or guaranteed by the GSEs in certain high-cost housing markets.

However, as Congress has considered these changes, much attention has been drawn to the scope of the new regulator’s authority to oversee Fannie Mae and Freddie Mac’s portfolios. Bean’s amendment modified language in the bill that would have effectively allowed the federal government to assume control of the GSEs investment portfolio if it determined that it posed a “systemic risk” – an undefined and arbitrary standard.

Bean’s amendment, which passed overwhelmingly 383 to 36, improved the bill to ensure strong regulatory oversight of GSE portfolios, while clarifying a provision that could have threatened their ability to fulfill their mission. The most significant amendment that was accepted to this landmark legislation, the change ensures that if there is sufficient risk posed to each company, the regulator would have the authority to adjust the portfolio. However, the regulator would not be authorized to shrink, cap, or limit the size of the GSE portfolios based simply upon a nebulous determination that the portfolios are too large or that they might pose a risk to the overall system.

“This legislation is necessary to further strengthen the U.S. financial system and establish a sound regulatory environment for the housing GSEs—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks,” Bean said. “Given the importance of a liquid, stable and efficient housing market to our nation’s economy, there must be no ambiguity

or confusion as to what authority is being granted in a new GSE regulator. I thank and commend my colleagues for supporting my amendment, which ensures strong regulatory oversight of GSE portfolios, while eliminating the kind of excessive regulation that can threaten their ability to fulfill their housing mission."

Both Fannie Mae and Freddie Mac are private, stockholder-owned corporations that tap the U.S. and global stock and bond markets to, in turn, provide guarantees for and make investments in mortgages made by banks, thrifts and other mortgage lenders. This "secondary mortgage market" ensures that lenders have a constantly replenished supply of capital and so creates a highly liquid and generally efficient mortgage market, lowering mortgage costs for borrowers. Economists estimate that, in the absence of this secondary market, the interest rate charged to the typical borrower would be between ¼ and ½ percentage points higher. A stable mortgage market is also believed to be a significant contributor to the rise in the U.S. homeownership rate in recent decades to nearly 70 percent.

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